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**Article**

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## **Management in the Central and Eastern European transition countries: Estonia**

*Ruth Alas, Maris Zernand\**

International institutions and experts have frequently highlighted Estonia as a transition country that has relatively rapidly and successfully introduced economic reforms and achieved substantial results in the transition process.

The following article is written on the basis of four main functions of management. Those are planning, organizing, leading and controlling. In addition change management and management by activities are being handled like marketing-, finance- and personnel management.

At the moment, it is complicated to find a thorough research work on all fields of management. Most extensive surveys have been conducted about the international human resources management, CRANET survey 2000 in Estonia and about the organization culture and employees' attitudes toward an organization change.

### **Managerial environment in Estonia**

According to the Statistical Yearbook (Estonian Statistical Office 2001), there are more than 77.000 different enterprises, non-profit associations and foundations in Estonia. More than 63.000 (82%) of them constitute entrepreneurs. The biggest part (39%) of the enterprises by activity constitutes wholesale and retail trade companies. The next part by volume (17%) constitutes by companies dealing with real estate, renting and business activities. Current proportions by the activity have been the same during the last six years.

In 2000, there were 14.206 different government agencies, local government agencies, non-profit associations and foundations in the statistical profile. The size of the public sector has doubled during the last six years.

Small entrepreneurs dominate by the number of employees. More than a half (67%) of the enterprises have less than five employees; smaller part (24%) contains business organizations with five to nineteen employees. Only 8% from

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\* Estonian Business School

the enterprises have 20 -199 employees and less than 1% (230 from 42.591) have 200 and more employees.

According to the survey conducted by Nurmi and Üksvärav (1994), in the beginning of 90-ies, most of the older generation of the Estonian managers has a technical background, but many of them have also a fairly good management education thank to the field of management education. The younger generation may have had a lesser education, but they tend to come from a wider background and some of them are educated and trained abroad. As a consequence, they are more flexible and more open to new ideas than their predecessors (Nurmi; Üksvärav, 1994)

Today, the situation has changed. A big part of managers have spent their time to get an education or additional training abroad. Concepts of innovative learning, organizational learning, innovative learning, learning organization and knowledge management are useful tools for analyzing and solving change management challenges in the transition process. (Elenurm, 2001)

A rapid transformation of the economy in recent years has been achieved, partially by matching new economic demands in terms of knowledge and experience with appropriate styles of management. (Vadi, 2001)

## **Planning**

Survey among 218 Estonian business and public sector organizations (Alas, 2001b, p.79) showed that organization mission has been defined and stated in writing in 64% of all organizations, even somewhat more in the public sector (69%) and less in business sector (59%). 20% of organizations declare lack of a mission statement. Mission is formulated mostly in very small and very big, old service and manufacturing companies. It appeared that the main shortcomings in formulation of mission lie in newly established intermediate companies (Virolainen, 2001).

Corporate strategy, as it could be expected, is most often defined in large organizations of the business sector. 77% of those maintain that they have one written and another 10% claim to have an unwritten strategy. A little bit more than a half (53%) out of all the surveyed public companies have a written corporate strategy.

Strategic planning is a surprisingly widespread practice in the public sector where slightly over a half of the organizations states the existence of a defined corporate strategy. (Alas, 2001b)

Out of the Virolainen's (2001) studied research, it came out that the objectives are set in 94% of companies. The most frequently mentioned objectives are enlargement, quality improvement and specialization. Almost each company has written down its main objectives they want to achieve.

Another significant link is the distribution of objectives. In the research, it was given to the extent of 54% of all companies. Mainly, the set objectives are short-term ones. The main reason that the managers mention for not having long-term objectives is the impossibility of a long-term planning due to the rapid changes in the Estonian economy. The research showed also that hierarchical planning is being exploited in 46% of the surveyed companies. The biggest shortcomings concerning hierarchical planning appear in the manufacturing companies.

New planning techniques like MBO (Management by Objectives) is used only in a very few companies.

### **Organizing**

Organization structure is being affected by the former times. Regulations and policies remain managerial instruments, but the axing of the party shadow organization, and shedding of layers of the administrative staff and bureaucracy has been a trend (Nurmi; Üksväärv, 1994).

The most dominated type of organization structure is a functional one. This is caused by the affection of the former times on one hand and the big number of young organizations on the other hand. The structures tend to be rather narrow than wide and it shows still a small delegation of management. A few organizations that are already developed and also organizations based on knowledge management tend to be flatter and they use more matrix and team structure.

### **Leading**

The international research about the Charismatic Theory of Leadership in Estonia is currently in process.

Hersey-Blanchard's situational leadership theory based on the research among 14 companies (Orula, 1999) concluded "selling" as dominated management style among the managers in Estonia. The estimated managers evaluate their employees lower and think that it is necessary to tell them in detail what and how to do something.

A new survey among the Estonian successful managers (Fontes, 2001) indicates directive, as the most used management style. Consulting style is used less. After that come negotiating, participating and finally delegating styles.

Research about job satisfaction carried out in 11 different companies in Tallinn (Ševerev, 2000) indicated that employees were more satisfied with general working conditions, including necessary working instruments, work regimen, and work environment itself. Satisfaction with superiors and awareness of the company's objectives was also estimated with high rates. The lower satisfaction was seen with several aspects of motivation and salary and organization culture.

A lack of promotion opportunities and additional training possibilities in organizations cause dissatisfaction among people (ibid).

From the comparative study of values (Kooskora; Valler; Virovere, 2001), it can be observed that the Estonian managers prefer organizational-juridical values to cultural and personal values to social and ethical values ranked on a 10-point scale between 8 and 9. The research showed that 82% of the conflicts were vertical (conflicts between employers and employees – at different hierarchical levels) and only 18% were horizontal.

Survey about the decision-making (Kooskora, 2001) showed that the decisions people make in business situations are very much affected by the social environment and organizational climate, company culture, leadership styles and managerial roles. Also, by the attitudes and opinions the person has got and by the attitudes and opinions he thinks are appropriate in the eyes of the society and the organization.

Studies conducted at EBS (Kooskora, 2001 p.55) show that the main reason for conflicts in the society and in companies lies with the decision-maker himself, his value and judgments and morality. As the main goal in the Estonian business community is profit earning, then the whole society is self-centered and driven only by a personal interest, which leaves no room to the ethical consideration.

### **Controlling**

According to the research of Virolainen (2001), the control type mostly performed is control by field (80%). The biggest shortcoming among all companies lies in the resource control (20%). Manufacturing companies attach less importance to the human resource control. Hierarchical controlling is performed in 40% of the companies. The research showed that if hierarchical controlling is being performed by a smaller or bigger extent in nearly all the companies, then internal control is mostly carried out in older and bigger service companies.

The main control carried out in companies is external control (control through personal supervision and use of formal administrative system).

Compulsory outside aimed statement system was implemented by 82% of the enterprises in 1999. (Haldma 2000, p. 14). The internal statements (income statement, statement of outstanding bills, statement of acting costs, etc) are compiled mostly in term of months. Marginal return based statements are used to a relatively less extent. The results of the enterprises action are pointed out mainly by functions (68% of the firms) by the product groups (52%) and to a small extent by client groups (20%) sales areas (18%) (Haldma 2000, p.15). Most firms consider internal planning and development of statements very important. The need for detailed and opportune information is the main reason

for changes, but also the increase in administration activity. The Activity based costing and principles of Balanced Score Card have been implemented in bigger companies.

## **Marketing**

Strategic marketing management, as a value creation activity in today's successful companies, is not considered as the responsibility of marketing department alone; marketing should be everybody's responsibility. In the increasingly competitive markets, growth and profitability come from meeting the needs of customers more effectively than of the competitors. The globalization of markets, changing industrial structures and information technology development set criteria for a fundamental strategic marketing management. Marketing management is undoubtedly very important, however, real value can only be created in cooperation with every single functional unit and department of a company like purchasing, production, marketing, sales, logistics, customers service, internal communication and others. Marketing is not primarily a functional activity; rather, it should be the common focus of everyone in the business (Doyle, Knight (1997), p. 3, p. 5). Only in this way, a company could create value and stay ahead of competition. The essential idea behind this development is that any business should create value for customers and shareholders, very often the latter one is forgotten. Value could be created only if a business is market-orientated and marketing is considered as a central function of any business. Some research has been carried out that provides evidence of the increasing importance of marketing management that leads market leadership. Preliminary marketing research on market orientation among medium size companies has shown that marketing, according to print mill company's employees, is considered more like a function and not as a process. Further investigation showed that employees lack in market orientation, which has resulted in stagnating sales and decreasing competitiveness. Employee motivation was considered as an important factor in determining market orientation (Linnamäe, 2001, p. 67). A furniture manufacturing business that had a clearly developed marketing and sales department with clear objectives employs people who understand their role in servicing customer needs and therefore, were more marketing orientated (Linnamäe, 2001, p. 68). Marketing is the management process that seeks to maximize returns to shareholders by developing relationship with valued customers and creating a competitive advantage (Doyle (2000), p. 29). Companies who want to stay ahead of competition and gain long-term profits, must be market oriented with their marketing and other business functions and activities.

### Operations management

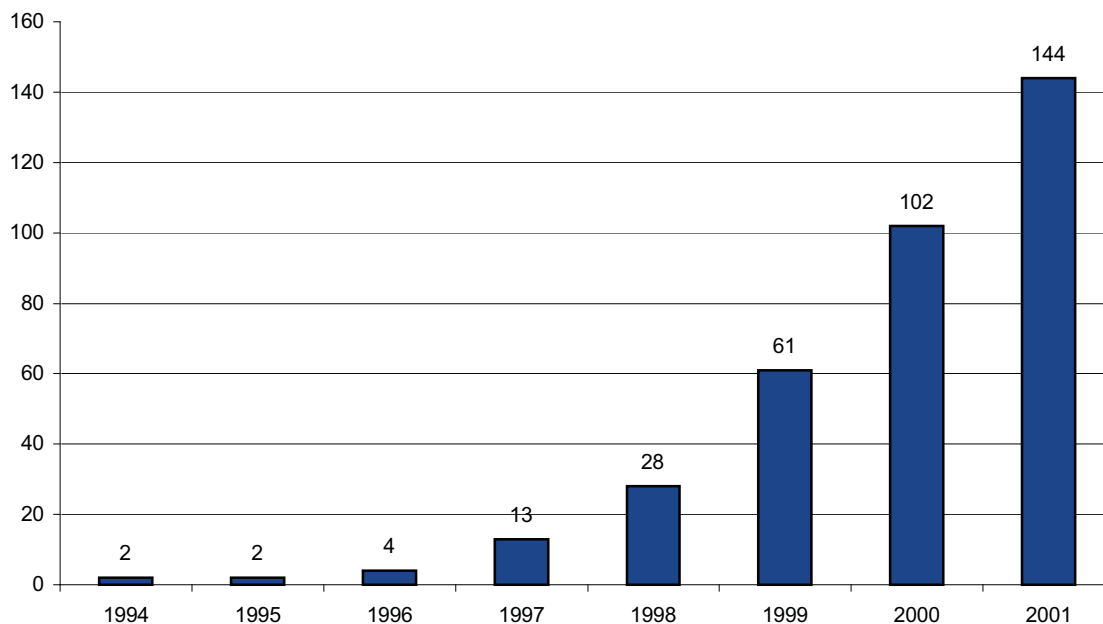
More than 180 (184) ISO 9000 standard certificates have been issued before October 2001 (EQU, 2001). As it can be seen in the figure 1 the number of the issued certificates has dramatically increased in the last five years.

As it appeared from the survey already in 1996 (Tammaru, 1996), 83% from the 75 answered enterprises considered the quality questions very important and 16% important. 12 surveyed organizations had a formulated quality system.

The extent of the implementation of quality management methodology in companies and other organizations and general economic competitiveness of a particular country are in a distinct positive correlation (Kiitam 2000).

The Estonian Quality Award project was initiated this year. 8 companies participated in the pilot project. The pilot project is followed by the real award competition.

*Figure 1. ISO 9000 certified companies in Estonia*



### Financial management

Finance got the priority by developing accounting in Estonia in the condition of transition to the market economy. The International Accounting Standard was accepted in 1994. Less attention was paid to the development of managerial accounting. It has created a situation where internal accounting system did not satisfy the real needs of management. It cannot be said that all firms are guided by the principle of magnification of the owners' property. The budgeting of investments is at the necessary level only in the big enterprises and the companies with foreign owners.



Most Estonian enterprises have experience in business plans and long-term finance plans thanks to the developed banking. The budgets for short periods are less used and analyzed. According to the Accounting Act, all enterprises have to prepare a turnover statement.

Internal funding was spread at the extent of 49% in years 1994-1998 (Kangur 1999, p. 25). This kind of structure complies with the developed countries. This proves indirectly that most Estonian enterprises are aware of the management of capital structure and price.

### **Human resources management**

In the area of personnel/HR management, the Estonian organizations are currently moving from traditional methods in personnel management towards the application of human resource management ideology.

According to the survey (Kaarelson; Alas 2001), Estonian organizations with 200 or more employees as a rule have a personnel/HR department and/or a personnel/HR manager. A written recruitment and selection policy exists in approximately 40% of the organizations in both sectors, a bit more in public organizations. Every sixth large organization lacks such a policy.

Estonian organizations are characterized by a decrease in the number of employees. In the business sector, three organizations out of five, i.e. 60%, have stated at least 5% decrease in the number of employees during the past three years. Only 25% of the companies have increased the number of employees in the same period.

The average expenditure on training in large organizations constitutes 3.9% of the annual labor costs.

Of all the personnel management services, Estonian organizations purchase most frequently training services. 66% of large organizations, including 75% of business organizations practice it regularly.

### **Organizational change management**

The research among 137 Estonian companies (Alas, 2001a) indicates that 75% of the studied companies had changed their strategy, 61% of them had changed their organizational culture and 58% the management style. In these organizations, radical changes took place, which changed the system itself. Only in 10% of the studied companies, there has been no change in transformational factors.

To summarize, Estonia has passed transition from a former part of the Soviet Union, with centrally planned economy, to a politically independent country with free market economy. To operate successfully in free market conditions Estonian companies have in the process of change and a remarkable part of



these changes is deepest by scope - transformational changes. There have been major changes in management of Estonian organizations during economic transition and management practices have moved toward management processes in the Western countries. But non of changes have been completed entirely. The changes in management of Estonian companies have to continue in order to be competitive in future.

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